

**REPORT OF THE AUDIT OF THE
HART COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2004**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE HART COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2004**

The Auditor of Public Accounts has completed the audit of the Hart County Fiscal Court for fiscal year ended June 30, 2004. We have issued an unqualified opinion, based on our audit and the reports of the other auditors, on the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information.

Financial Condition:

The fiscal court had net assets of \$2,058,929 as of June 30, 2004. The fiscal court had unrestricted net assets of \$1,281,372 in its governmental activities as of June 30, 2004, with total net assets of \$2,026,518. In its enterprise fund, total net cash and cash equivalents were \$30,411 with total net assets of \$32,411. The fiscal court's discretely presented component units had net assets of (\$28,342) as of June 30, 2004. The discretely presented component units had net cash and cash equivalents of \$181,722. The fiscal court had total debt principal as of June 30, 2004 of \$4,317,143 with \$96,506 due within the next year. The discretely presented component units had total debt principal as of June 30, 2004 of \$2,921,351 with \$1,303,524 due within the next year.

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Glenn Thomas, Hart County Judge/Executive
Honorable Terry Shelton, Former Hart County Judge/Executive
Members of the Hart County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented components units, each major fund, and the aggregate remaining fund information of Hart County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Hart County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Hart County Solid Waste Management District and the Hart County Industrial Authority, Inc., which represents 36 percent and 64 percent, respectively, of the assets, and 86 percent and 14 percent, respectively, of the revenues of the discretely presented component opinion unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Hart County Solid Waste Management District and the Hart County Industrial Authority, Inc., is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

As described in Note 1, Hart County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.



To the People of Kentucky
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In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Hart County, Kentucky, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting.

The county has implemented Governmental Accounting Standards Board Statements 33, 34, and 37 as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hart County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated January 7, 2005 on our consideration of Hart County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
January 7, 2005

HART COUNTY OFFICIALS

For The Year Ended June 30, 2004

Fiscal Court Members:

Terry Shelton	County Judge/Executive
Jim Stewart	Magistrate
Melvin Perkins	Magistrate
Ronald Riordan	Magistrate
Franklin Turner	Magistrate
Don Kessinger	Magistrate

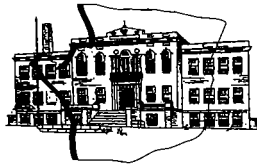
Other Elected Officials:

Mike Nichols	County Attorney
Keith Riordan	Jailer
Lisa Hensley	County Clerk
Conroy Harris	Circuit Court Clerk
Jeff Staples	Sheriff
Vicki Reynolds	Property Valuation Administrator
Jeff Roten	Coroner

Appointed Personnel:

Sue Gardner	County Treasurer
Rietta Osborne	Occupational Tax Collector
Donna Centers	Finance Officer
Victor Girard	911 Administrator

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Terry Shelton

Hart County Judge/Executive

Management's Discussion and Analysis **June 30, 2004**

The financial management of Hart County, Kentucky offers readers of Hart County's financial statements this narrative overview and analysis of the financial activities of Hart County for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented in conjunction with other information that we have furnished in our letter of transmittal and the notes to the financial statements.

Financial Highlights:

Hart County had net assets of \$2,058,929 as of June 30, 2004. The fiscal court had unrestricted net assets of \$1,281,372 in the governmental activities as of June 30, 2004, with total net assets of \$2,026,518. In the enterprise fund, cash and cash equivalents were \$30,411 with total assets of \$32,411. Total debt for governmental type funds principal as of June 30, 2004 was \$4,317,143 with \$96,506 due within one year.

The governmental activities' total net assets decreased by \$387,176 from the prior year. This decrease is primarily due to an increase in expenditures in the Road, Jail, and Federal Grants Funds.

At the close of the current fiscal year, Hart County governmental funds reported current assets of \$1,376,949. Of this amount, \$1,376,949 is available for spending at the government's discretion (unreserved fund balance).

Hart County's total indebtedness at the close of fiscal year June 30, 2004 was \$4,317,143, of which \$4,220,637 is long-term debt (due after 1 year) and \$96,506 is short-term debt (to be paid within 1 year). Debt additions were \$3,762,891, and debt reductions were \$3,402,117 for a net increase of \$360,774 for the year.

Overview of the Financial Statements:

This management discussion and analysis is intended to serve as an introduction to Hart County's basic financial statements. Hart County's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GASB 34 requires management to include certain comparison schedules when they are available. The schedules include prior and current comparisons of general revenues by major source, and program expenses by function. This is the first year of implementation and these schedules will be presented next year.

Government-wide Financial Statements:

The government-wide financial statements are designed to provide readers with a broad overview of Hart County's finances, in a manner similar to a private-sector business.

**Hart County
Management's Discussion and Analysis
June 30, 2004
(Continued)**

Government-wide Financial Statements: (Continued)

The *Statement of Net Assets* presents information on all of Hart County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Hart County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as timing for recognizing revenues, and related assets and liabilities.

Under the county's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide financial statements for all activities and in the fund financial statements for the proprietary fund financial statements.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or significant portion of their costs through uses fees and charges (*business-type activities*). Hart County's governmental activities include general government, protection to persons and property, roads, recreation, social services, debt service, capital projects, and administration. Hart County has one business type activity – Jail Canteen.

The government-wide financial statements include not only Hart County itself (known as the primary government), but also legally separate entities, which have a significant operational or financial relationship with the County. Hart County has two such entities described as major discretely presented component units, they are: Hart County Industrial Authority, Inc. and Hart County Solid Waste Management District.

Fund Financial Statements:

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Hart County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Hart County can be divided into broad categories: *governmental funds*, *proprietary funds*, and *fiduciary funds*.

Governmental Funds:

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditure, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

**Hart County
Management's Discussion and Analysis
June 30, 2004
(Continued)**

Governmental Funds: (Continued)

Hart County maintains ten (10) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and change in fund balances.

Major Funds:

- General Fund
- Road Fund
- Jail Fund
- General Obligation Bond Fund

Non-major Funds:

- Local Government Economic Assistance Fund (LGEA)
- Federal Grants Fund
- 911 Dispatch Fund
- Tourist Fund
- Financing Obligations Fund
- Hart County Public Properties Corporation

Proprietary Funds:

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Jail Canteen Fund.

Fiduciary Funds:

These funds are used to account for resources held for custodial purposes. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the programs of the County. The accounting used for fiduciary funds is much like that used for proprietary funds. The County's fiduciary fund is the Inmate Account.

Component Unit:

As mentioned above, Component Units are operations for which the County has some financial accountability, but also have certain independent qualities as well. Component Units operate similarly to private sector businesses. The government-wide financial statements present information for the component units in aggregate within a single column of the statement of net assets. Also, information on the statement of activities is aggregated for component units. The combining statements of net assets and the combining statement of activities provide details for each component unit.

Notes to the Financial Statements:

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Net Assets: As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

**Hart County
Management's Discussion and Analysis
June 30, 2004
(Continued)**

**TABLE 1
HART COUNTY'S NET ASSETS**

	Governmental Activities		Business-type Activities		Total	
	2003	2004	2003	2004	2003	2004
Assets						
Current &						
Other Assets	\$ 1,252,294	\$ 1,376,949	\$ 38,653	\$ 30,411	\$ 1,290,947	\$ 1,407,360
Cap. Assets	5,117,769	4,966,712	2,500	2,000	5,120,269	4,968,712
Total Assets	\$ 6,370,063	\$ 6,343,661	\$ 41,153	\$ 32,411	\$ 6,411,216	\$ 6,376,072
Liabilities						
Current &						
Other Liabilities	\$	\$ 96,506	\$	\$	\$	\$ 96,506
Long-term						
Liabilities	3,956,369	4,220,637			3,956,369	4,220,637
Total Liabilities	\$ 3,956,369	\$ 4,317,143	\$	\$	\$ 3,956,369	\$ 4,317,143
Net Assets						
Invested in						
Capital Assets,						
Net of Related						
Debt	\$ 1,161,400	\$ 649,569	\$ 2,500	\$ 2,000	\$ 1,163,900	\$ 651,569
Restricted		95,577				95,577
Unrestricted	1,252,294	1,281,372	38,653	30,411	1,290,947	1,311,783
Total Net Assets	\$ 2,413,694	\$ 2,026,518	\$ 41,153	\$ 32,411	\$ 2,454,847	\$ 2,058,929

Changes in Net Assets:

Governmental Activities. Hart County's net assets decrease by \$387,176 in fiscal year 2004. Key elements of this are as follows:

- Current assets and cash increased \$124,655 due to an increase in Road, Jail, and Federal Grants Fund expenditures.
- Investment in capital assets, net of related debt decreased \$511,831 primarily due to additional debt and depreciation expense.
- Current and long-term liabilities increased \$360,774, due to additional debt.

Business-type Activities. Hart County's net assets decreased by \$8,742 in fiscal year 2004. Key elements of this are as follows:

- Current assets and cash decreased \$8,242.
- Investment in capital assets decreased by \$500 due to depreciation expense.

Financial Analysis of County's Funds:

As noted earlier, Hart County uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

**Hart County
Management's Discussion and Analysis
June 30, 2004
(Continued)**

Governmental Funds Overview:

The focus of Hart County governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of June 2004, fiscal year, the combined ending fund balances of County governmental funds were \$1,376,949. One hundred percent (100%) of this consists of unreserved fund balance, which is available as working capital and for current spending in accordance with the purposes of the specific funds. The County has four (4) major governmental and six (6) non-major funds.

Major Funds:

- General Fund
- Road Fund
- Jail Fund
- General Obligation Bond Fund

Non-major Funds:

- Local Government Economic Assistance Fund (LGEA)
- Federal Grants Fund
- 911 Dispatch Fund
- Tourist Fund
- Financing Obligations Fund
- Hart County Public Properties Corporation

1. The General Fund is the chief operating fund of Hart County. At the end of June 30, 2004 fiscal year, unreserved fund balance of the General Fund was \$271,888. The County received \$1,369,085 in real and personal property, motor vehicle, and other taxes for approximately 66% of the county's general revenues. Various other service fees and miscellaneous revenues contribute to the remaining 34% of revenues. The General Fund expenditures for fiscal year 2004 were \$1,555,736.
2. The Road Fund is the fund related to County road construction and maintenance. The Road Fund had \$819,656 fund balance at June 30, 2004. The fiscal year 2004 expenditures for the Road Fund were \$724,039.
3. The Jail Fund is used to pay for expenses pertaining to our prisoners such as, housing, medical bills, transportation, and various supporting expenses. The Jail Fund received \$941,973 from State allotments, court costs, and DUI fees. The General Fund also contributed \$391,918 to the Jail Fund. Expenditures for the fiscal year 2004 were \$1,484,646.
4. The General Obligation Bond Fund is used for debt service pertaining to our jail construction. The General Obligation Bond Fund had a balance of \$0 as of June 30, 2004.
5. The Local Government Economic Assistance Fund (LGEA) is money received from mineral severance tax and distributed to the counties by the State Treasury. These funds can only be spent for specific purposes set forth by the state. The Local Government Economic Assistance Fund had a fund balance of \$55,532 as of June 30, 2004.

**Hart County
Management's Discussion and Analysis
June 30, 2004
(Continued)**

Governmental Funds Overview: (Continued)

6. The Federal Grants Fund had a balance of \$9,335 as of June 30, 2004. These funds were from the Homeland Security Grant and various other grants we applied for to improve emergency services and waterline access in our county. These funds are restricted to approved expenditures.
7. The 911 Dispatch Fund had a balance of \$12,947 as of June 30, 2004. The 911 Dispatch Fund generated \$134,635 in revenues in the 2004 fiscal year. These revenues are used for emergency services in our county.
8. The Tourist Fund had a balance of \$14,290 as of June 30, 2004. These funds are generated by the room tax and are used to fund recreational and cultural events in our county.
9. The Financing Obligations Fund had a balance of \$89,202 as of June 30, 2004. The Financing Obligations Fund is used to pay for the county's lease obligations.
10. The Hart County Public Properties Corporation had a balance of \$6,375 as of June 30, 2004. These funds are used for debt service of our capital projects.

Proprietary Funds Overview:

The county's proprietary fund statements provide the same type of information found in the government-wide statements, but in more detail.

Hart County has one (1) enterprise-type proprietary fund, which is:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

The Jail Canteen Fund's unrestricted net assets as of June 30, 2004 were \$30,411 and total net assets were \$32,411.

Fiduciary Funds Overview:

All fiduciary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund is used to account for monies held by the county in the Inmate Account Fund for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

General Fund Budgetary Highlights:

Hart County's budget was amended during the fiscal year increasing the budgeted amount by \$322,464. The amendments included \$53,200 in taxes, \$169,264 in reimbursements, and \$100,000 prior year carryover.

The General Fund ended the year with \$271,888, which is an increase of \$48,115 over the 2003 fiscal year end balance.

**Hart County
Management's Discussion and Analysis
June 30, 2004
(Continued)**

Road Fund's Budgetary Highlights:

The Road Fund's 2004 year-end balance increased by \$99,620 due to an increase in County Road Aid funds received. Road Fund money is restricted money that can only be used for road construction and maintenance and for the operation of the road department.

Jail Fund's Budgetary Highlights:

The Jail Fund expenditures increased in the 2004 fiscal year with the greatest increase being \$206,453 for debt service. The Jail Budget was amended \$100,000 to help cover the increase in expenditures.

General Obligation Bond Fund Budgetary Highlights:

The General Obligation Bond Fund is not required to be budgeted by the State Local Finance Officer. This fund is used to provide payments for bond indentures and these payments are budgeted in the governmental funds.

LGEA Budgetary Highlights:

The LGEA Fund balance decreased \$482 from the 2003 fiscal year end balance. This was due to an increase in our contribution to Soil Conservation.

Federal Grants Fund Budgetary Highlights:

The Federal Grants Fund balance was \$9,335 at the end of the 2004 fiscal year. These funds are to be used in accordance with the applicable grants requirements.

911 Dispatch Fund Budgetary Highlights:

The 911 Dispatch Fund balance decreased by \$10,960 from the prior fiscal year. This is due to increased expenditures for the 911 office.

Tourist Fund Budgetary Highlights:

The Tourist Fund balance ended with a decrease of \$7,196, which was due to increasing costs of promoting tourism in our county. These funds are turned over to the Hart County Tourism Commission quarterly.

Financing Obligations Fund Budgetary Highlights:

The Financing Obligations Fund balance decreased by \$53,352 from the prior fiscal year. These funds can only be used to make payments on the county's leasing obligations.

Hart County Public Properties Corporation Budgetary Highlights:

The Hart County Public Properties Corporation is not required to be budgeted by the State Local Finance Officer. This fund balance had an increase of \$4 from the prior year. This fund is used to provide payments for bond indentures and these payments are budgeted in the governmental funds.

Capital Assets and Outstanding Debt:

Capital Assets:

Hart County's investment in capital assets for its government and business type activities as of June 30, 2004, amount to \$4,968,712 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements to land other than buildings, machinery and equipment, and vehicles.

Additional information of the County's capital assets can be found in Note 3 of this report.

**Hart County
Management's Discussion and Analysis
June 30, 2004
(Continued)**

Capital Assets and Outstanding Debt: (Continued)

**TABLE 2
HART COUNTY'S CAPITAL ASSETS,
NET OF ACCUMULATED DEPRECIATION**

	Governmental Activities		Business-type Activities		Total	
	2003	2004	2003	2004	2003	2004
Assets						
Land & Improvements	\$ 50,399	\$ 50,399	\$	\$	\$ 50,399	\$ 50,399
Historical Treasures	224,669	224,669			224,669	224,669
Buildings	4,348,197	4,255,889			4,348,197	4,255,889
Other Equipment	266,488	241,870			266,488	241,870
Vehicles & Equip.	228,016	193,885	2,500	2,000	230,516	195,885
Total Net Capital Assets	\$ 5,117,769	\$ 4,966,712	\$ 2,500	\$ 2,000	\$ 5,120,269	\$ 4,968,712

Outstanding Debt:

At the end of the 2004 fiscal year, Hart County had total bonded debt outstanding of \$4,317,143 from Courthouse Renovations financing obligations and Jail Construction bonds.

Other Matters:

The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the 2005 fiscal year budget:

- The 2005 fiscal year adopted budget continues most services at current levels.
- The increase in Jail Fund costs was considered when preparing the budget, and health insurance premiums continue to cause concern.
- New industries moving into the Industrial Park show economic growth for the County.

Requests for Information:

This financial report is designed to provide a general overview of Hart County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Hart County Treasurer, P. O. Box 490, Munfordville, KY 42765.

HART COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
June 30, 2004

HART COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

	Primary Government			Component
	Governmental	Business-Type	Totals	Units
	Activities	Activities		
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 1,281,372	\$ 30,411	\$ 1,311,783	\$ 181,722
Investments	95,577		95,577	
Total Current Assets	1,376,949	30,411	1,407,360	181,722
Noncurrent Assets:				
Capital Assets - Net of Accumulated Depreciation:				
Historical Treasures	224,669		224,669	
Land and Land Improvements	50,399		50,399	513,915
Buildings	4,255,889		4,255,889	871,462
Improvements				553,566
Other Equipment	241,870		241,870	
Vehicles and Equipment	193,885	2,000	195,885	
Solid Waste Management - Buildings, Improvements, Office Equipment, and Equipment and Trucks				789,199
Total Noncurrent Assets	4,966,712	2,000	4,968,712	2,728,142
Total Assets	6,343,661	32,411	6,376,072	2,909,864
LIABILITIES				
Current Liabilities:				
Leases and Notes Payable				1,303,524
Retirement Payable				1,792
Payroll Taxes Payable				2,228
Garbage Service Deposits Payable				12,835
Bonds Payable	35,000		35,000	
Financing Obligations Payable	61,506		61,506	
Total Current Liabilities	96,506		96,506	1,320,379
Noncurrent Liabilities:				
Leases and Notes Payable				1,617,827
Bonds Payable	3,720,000		3,720,000	
Financing Obligations Payable	500,637		500,637	
Total Noncurrent Liabilities	4,220,637		4,220,637	1,617,827
Total Liabilities	4,317,143		4,317,143	2,938,206
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	649,569	2,000	651,569	(210,064)
Restricted For:				
Capital Projects	5,852		5,852	
Debt Service	89,725		89,725	
Unrestricted	1,281,372	30,411	1,311,783	181,722
Total net assets	\$ 2,026,518	\$ 32,411	\$ 2,058,929	\$ (28,342)

The accompanying notes are an integral part of the financial statements.

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HART COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004

HART COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,890,725	\$ 23,332	\$ 485,776	\$
Protection to Persons and Property	1,560,864	859,873	216,724	
General Health and Sanitation	159,709			
Social Services	12,857		7,877	
Recreation and Culture	200,086			
Roads	645,877	1,530	1,003,725	
Interest on Long-Term Debt	655,372			
Capital Projects	37,000			260,134
Total Governmental Activities	5,162,490	884,735	1,714,102	260,134
Business-type Activities:				
Jail Canteen Fund	72,564	63,822		
Total Business-type Activities	72,564	63,822		
Total Primary Government	\$ 5,235,054	\$ 948,557	\$ 1,714,102	\$ 260,134
Component Units:				
Hart County Industrial Authority, Inc.	\$ 178,447	\$	\$	\$
Hart County Solid Waste Management District	1,161,855	1,193,447	45,056	
Total Component Units	\$ 1,340,302	\$ 1,193,447	\$ 45,056	\$ 0

General Revenues:

Taxes:
 Real Property Taxes
 Personal Property Taxes
 Motor Vehicle Taxes
 Other Taxes
 Excess Fees
 Unrestricted Investment Earnings
 Building Rental
 Installment Sales
 Gain on Sale of Fixed Assets
 Interest Expense
 Miscellaneous Revenues

 Total General Revenues
 Change in Net Assets
 Net Assets - Beginning (Restated)

 Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

HART COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities	Totals	Component Units
\$ (1,381,617)	\$	\$ (1,381,617)	\$
(484,267)		(484,267)	
(159,709)		(159,709)	
(4,980)		(4,980)	
(200,086)		(200,086)	
359,378		359,378	
(655,372)		(655,372)	
223,134		223,134	
(2,303,519)		(2,303,519)	
	(8,742)	(8,742)	
	(8,742)	(8,742)	
(2,303,519)	(8,742)	(2,312,261)	
			(178,447)
			76,648
			(101,799)
428,834		428,834	
61,363		61,363	
73,646		73,646	
1,008,562		1,008,562	
47,843		47,843	
33,572		33,572	1,002
			173,750
			18,000
			200
			(42,888)
262,523		262,523	4,972
1,916,343		1,916,343	155,036
(387,176)	(8,742)	(395,918)	53,237
2,413,694	41,153	2,454,847	(81,579)
\$ 2,026,518	\$ 32,411	\$ 2,058,929	\$ (28,342)

The accompanying notes are an integral part of the financial statements.

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HART COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2004

HART COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>General Obligation Bond Fund</u>	
ASSETS					
Cash and Cash Equivalents	\$ 271,888	\$ 819,656	\$ 97,724	\$	
Investments					
Total assets	<u>\$ 271,888</u>	<u>\$ 819,656</u>	<u>\$ 97,724</u>	<u>\$ 0</u>	.
FUND BALANCES					
Unreserved:					
General Fund	\$ 271,888	\$	\$	\$	
Special Revenue Fund		819,656	97,724		
Reserved for:					
Debt Service Fund					
Capital Projects Fund					
Total Fund Balances	<u>\$ 271,888</u>	<u>\$ 819,656</u>	<u>\$ 97,724</u>	<u>\$ 0</u>	.

The accompanying notes are an integral part of the financial statements.

HART COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2004
(Continued)

Non- Major Funds	Total Governmental Funds
\$ 92,104	\$ 1,281,372
95,577	95,577
<u>\$ 187,681</u>	<u>\$ 1,376,949</u>

\$ 92,104	\$ 271,888
89,725	1,009,484
5,852	89,725
<u>5,852</u>	<u>5,852</u>
<u>\$ 187,681</u>	<u>\$ 1,376,949</u>

Reconciliation of Balance Sheet - Governmental Funds to Statement of Net Assets:

Total Fund Balances	\$ 1,376,949
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	6,340,122
Accumulated Depreciation	(1,373,410)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(562,143)
Bonded Debt	<u>(3,755,000)</u>
Net Assets Of Governmental Activities	<u>\$ 2,026,518</u>

The accompanying notes are an integral part of the financial statements.

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HART COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

HART COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>General Obligation Bond Fund</u>
REVENUES				
Taxes	\$ 1,338,411	\$	\$	\$
In Lieu Tax Payments	30,674			
Excess Fees	47,843			
Licenses and Permits	12,691			
Intergovernmental	426,672	1,003,725	941,973	
Charges for Services	150		63,935	
Miscellaneous	201,901	1,530	47,375	
Interest	9,683	12,158	1,016	9,585
Total Revenues	<u>2,068,025</u>	<u>1,017,413</u>	<u>1,054,299</u>	<u>9,585</u>
EXPENDITURES				
General Government	966,503			
Protection to Persons and Property	36,185		1,226,385	
General Health and Sanitation	148,551			
Social Services	12,857			
Recreation and Culture	59,770			
Roads		618,200		
Debt Service	59,882		84,453	6
Capital Projects				
Administration	271,988	105,839	173,808	
Total Expenditures	<u>1,555,736</u>	<u>724,039</u>	<u>1,484,646</u>	<u>6</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>512,289</u>	<u>293,374</u>	<u>(430,347)</u>	<u>9,579</u>
Other Financing Sources (Uses)				
Discount On Bond Issuance				(74,768)
Bond Issuance Premiums				(46,972)
Cost Of Bond Issuance				(69,181)
Proceeds of Refunding Bonds				3,755,000
Payment to Refunded Bonds Escrow Agent				(3,472,705)
Financing Obligation Proceeds	7,891			
Transfers From Other Funds	216,856	223,373	591,918	122,000
Transfers To Other Funds	(688,921)	(417,127)	(122,000)	(222,953)
Total Other Financing Sources (Uses)	<u>(464,174)</u>	<u>(193,754)</u>	<u>469,918</u>	<u>(9,579)</u>
Net Change in Fund Balances	48,115	99,620	39,571	
Fund Balances - Beginning (Restated)	223,773	720,036	58,153	
Fund Balances - Ending	<u>\$ 271,888</u>	<u>\$ 819,656</u>	<u>\$ 97,724</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

HART COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Non- Major Funds	Total Governmental Funds
\$ 186,753	\$ 1,525,164
	30,674
	47,843
	12,691
435,859	2,808,229
	64,085
2,249	253,055
1,131	33,573
<u>625,992</u>	<u>4,775,314</u>
308,716	1,275,219
215,421	1,477,991
9,719	158,270
	12,857
135,565	195,335
	618,200
249,522	393,863
37,000	37,000
29,554	581,189
<u>985,497</u>	<u>4,749,924</u>
<u>(359,505)</u>	<u>25,390</u>
	(74,768)
	(46,972)
	(69,181)
	3,755,000
	(3,472,705)
	7,891
330,837	1,484,984
(33,983)	(1,484,984)
<u>296,854</u>	<u>99,265</u>
(62,651)	124,655
250,332	1,252,294
<u>\$ 187,681</u>	<u>\$ 1,376,949</u>

The accompanying notes are an integral part of the financial statements.

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HART COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

HART COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ 124,655
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation Expense	(151,057)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds. These transactions, however, have no effect on net assets.	
Financing Obligation	(7,891)
Bond Issuance	(3,755,000)
Lease and bond principal payments are expensed in the Governmental Funds as a use of current financial resources.	
Financing Obligations	67,117
Bond Payments	<u>3,335,000</u>
Change in Net Assets of Governmental Activities	<u><u>\$ (387,176)</u></u>

The accompanying notes are an integral part of the financial statements.

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HART COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS
June 30, 2004

HART COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2004

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 30,411
Total Current Assets	<u>30,411</u>
Noncurrent Assets:	
Capital Assets:	
Vehicles and Equipment	3,000
Less Accumulated depreciation	<u>(1,000)</u>
Total Noncurrent Assets	<u>2,000</u>
Total Assets	<u>32,411</u>
Liabilities	
Total Liabilities	<u>0</u>
Net Assets	
Invested in Capital Assets,	
Net of Related Debt	2,000
Unrestricted	<u>30,411</u>
Total Net Assets	<u>\$ 32,411</u>

The accompanying notes are an integral part of the financial statements.

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HART COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

HART COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 63,822
Total Operating Revenues	<u>63,822</u>
Operating Expenses	
Cost of Sales	56,648
Postage	4,868
Personnel Costs	6,873
Depreciation	500
Miscellaneous	<u>3,675</u>
Total Operating Expenses	<u>72,564</u>
Operating Income (Loss)	<u>(8,742)</u>
Change In Net Assets	(8,742)
Total Net Assets - Beginning	<u>41,153</u>
Total Net Assets - Ending	<u><u>\$ 32,411</u></u>

The accompanying notes are an integral part of the financial statements.

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HART COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS
For The Year Ended June 30, 2004

HART COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts From Customers	\$ 63,822
Cost of Sales	(56,648)
Postage	(4,868)
Personnel Costs	(6,873)
Miscellaneous	(3,675)
Net Cash Provided By Operating Activities	(8,242)
Net Increase (Decrease) in Cash and Cash Equivalents	(8,242)
Cash and Cash Equivalents - July 1	38,653
Cash and Cash Equivalents - June 30	\$ 30,411
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	\$ (8,742)
Adjustments to Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities	
Depreciation Expense	500
Total Cash Provided By Operating Activities	\$ (8,242)

The accompanying notes are an integral part of the financial statements.

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HART COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS
For The Year Ended June 30, 2004

HART COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	<u>Agency Fund</u>
	<u>Inmate</u>
	<u>Account</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 56,034
Total Assets	<u>56,034</u>
Liabilities	
Amounts Held In Custody For Others	<u>56,034</u>
Total Liabilities	<u>56,034</u>
Net Assets	
Total Net Assets	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of the financial statements.

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HART COUNTY
STATEMENT OF NET ASSETS - COMPONENT UNITS - MODIFIED CASH BASIS
June 30, 2004

HART COUNTY
STATEMENT OF NET ASSETS - COMPONENT UNITS - MODIFIED CASH BASIS

June 30, 2004

	Hart County Industrial Authority, Inc.	Hart County Solid Waste Management District	Totals
Assets			
Current Assets:			
Cash and Cash Equivalents	\$ 68,865	\$ 112,857	\$ 181,722
Total Current Assets	<u>68,865</u>	<u>112,857</u>	<u>181,722</u>
Noncurrent Assets:			
Capital Assets, Net of Accumulated Depreciation:			
Land	369,915	144,000	513,915
Buildings	871,462		871,462
Improvements	553,566		553,566
Solid Waste Management - Buildings, Improvements, Office Equipment, and Equipment and Trucks		<u>789,199</u>	<u>789,199</u>
Total Noncurrent Assets	<u>1,794,943</u>	<u>933,199</u>	<u>2,728,142</u>
Total Assets	<u>1,863,808</u>	<u>1,046,056</u>	<u>2,909,864</u>
Liabilities			
Current Liabilities:			
Leases and Notes Payable	1,136,691	166,833	1,303,524
Retirement Payable		1,792	1,792
Payroll Taxes Payable		2,228	2,228
Garbage Service Deposits Payable		<u>12,835</u>	<u>12,835</u>
Total Current Liabilities	<u>1,136,691</u>	<u>183,688</u>	<u>1,320,379</u>
Noncurrent Liabilities:			
Leases and Notes Payable	<u>901,764</u>	<u>716,063</u>	<u>1,617,827</u>
Total Noncurrent Liabilities	<u>901,764</u>	<u>716,063</u>	<u>1,617,827</u>
Total Liabilities	<u>2,038,455</u>	<u>899,751</u>	<u>2,938,206</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	(243,512)	33,448	(210,064)
Unrestricted	<u>68,865</u>	<u>112,857</u>	<u>181,722</u>
Total Net Assets	<u><u>\$ (174,647)</u></u>	<u><u>\$ 146,305</u></u>	<u><u>\$ (28,342)</u></u>

The accompanying notes are an integral part of the financial statements.

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HART COUNTY
STATEMENT OF ACTIVITIES - COMPONENT UNITS - MODIFIED CASH BASIS
For The Year Ended June 30, 2004

HART COUNTY
STATEMENT OF ACTIVITIES - COMPONENT UNITS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

Functions/Programs Reporting Entity	Expenses	Program Revenues Received			Net (Expenses) Revenues and Changes In Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Hart County Industrial Authority, Inc.	\$ 178,447	\$	\$	\$	\$ (178,447)
Hart County Solid Waste Management District	1,161,855	1,193,447	45,056		76,648
Total Component Units	<u>\$ 1,340,302</u>	<u>\$ 1,193,447</u>	<u>\$ 45,056</u>	<u>\$</u>	<u>(101,799)</u>
General Revenues:					
Unrestricted Investment Earnings					1,002
Building Rental					173,750
Installment Sales					18,000
Gain on Sale of Fixed Assets					200
Miscellaneous Revenues					4,972
Interest Expense					<u>(42,888)</u>
Total General Revenues					<u>155,036</u>
Change in Net Assets					53,237
Net Assets - Beginning (Restated)					<u>(81,579)</u>
Net Assets - Ending					<u>\$ (28,342)</u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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**HART COUNTY
NOTES TO FINANCIAL STATEMENTS**

June 30, 2004

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government wide and fund financial statements utilizing a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivables are not included and recognized on Balance Sheet – Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets are included in the Statement of Net Assets and their corresponding depreciation expenses is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Hart County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or whose exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Audited financial statements for the Hart County Solid Waste Management District and Hart County Industrial Authority, Inc., discretely presented component units, may be requested by contacting the Hart County Solid Waste Management District, P. O. Box 549, Munfordville, Kentucky 42765, and Hart County Industrial Authority, Inc., P. O. Box 490, Munfordville, Kentucky 42765, respectively.

Blended Component Units

The following legally separate organizations provide their services exclusively to the primary government and the fiscal court is able to impose its will on this organization. These organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Units (Continued)

Hart County Public Properties Corporation

Hart County Public Properties Corporation (Corporation) is a legally separate entity established for the purpose of construction of the county jail building and the related long-term debt service. The Corporation's governing body consists entirely of fiscal court members. Therefore, the fiscal court is financially accountable and legally obligated for the debt of the Hart County Public Properties Corporation. Financial information for the Hart County Public Properties Corporation is blended within Hart County's financial statements

Hart County 911 Emergency Telephone Service

The Hart County 911 Emergency Telephone Service (Service) is a legally separate entity established to provide, maintain, and operate 911 emergency services for the citizens of Hart County. Fiscal Court has the authority to appoint a voting majority of the Service's board. The Service is fiscally dependent on the Fiscal Court because the Fiscal Court sets and collects the fees for the Service. This fiscal dependency requires the Fiscal Court to include the Service as a component unit. Financial information for the Service is blended within Hart County's financial statements.

Discretely Presented Component Units

The component units' columns in the combined financial statements include the data of the following organizations. They are reported on the Statement of Net Assets and the Statement of Activities in a separate column that is labeled as "Component Units" to emphasize these organizations' separateness from the Fiscal Court's primary government.

Hart County Parks, Playgrounds, and Recreation District

Hart County Fiscal Court has the authority to appoint a voting majority of the Hart County Parks, Playgrounds, and Recreation District's Board of Directors. The District is fiscally dependent on the Fiscal Court because Fiscal Court has the ability to modify or approve rate or fee changes. Fiscal Court is financially accountable for the District, legally entitled to the District's resources, and legally responsible for the District's debt. However, for the fiscal year ended June 30, 2004, the District had no financial activity.

Hart County Industrial Authority, Inc.

The Hart County Industrial Authority, Inc. (Authority) is a legally separate entity established to promote industrial growth in Hart County. Hart County Fiscal Court has the authority to appoint a voting majority of the Authority's board. The Authority is fiscally dependent on the Fiscal Court because the Fiscal Court has authorized the County Judge/Executive to cosign bank notes for the Authority, with Fiscal Court acting as guarantor. This fiscal dependency requires the Fiscal Court to include the Authority as a component unit. Financial information for the Authority is presented discretely within Hart County's financial statements.

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Discretely Presented Component Units (Continued)

Hart County Solid Waste Management District

Hart County Fiscal Court established the Hart County Solid Waste Management District (District) as a legally separate entity pursuant to KRS 67.083(3) and KRS 109.014(13) for the purpose of providing solid waste services for the residents of Hart County. Fiscal Court has the authority to appoint the voting majority of the District's board. The District is fiscally dependent on the Fiscal Court because the Fiscal Court is obligated for a financing obligation of solid waste equipment. This fiscal dependency requires the Fiscal Court to include the District as a component unit. Financial information for the District is presented discretely within Hart County's financial statements.

Hart County Tourism Commission

Hart County Fiscal Court (Fiscal Court) established the Hart County Tourism Commission (Commission) pursuant to KRS 91A.350(2) for the purpose of promoting tourism and convention activity in Hart County. The Commission is composed of seven members appointed by the Hart County Judge/Executive with the approval of the Fiscal Court. Five members are appointed by the County Judge/Executive from lists submitted by third parties. Two members are appointed at-large by the County Judge/Executive. The Commission's governing body is substantially different from the Fiscal Court. However, the Commission is fiscally dependent on the Fiscal Court because the Fiscal Court controls its major source of revenue. The Commission's major source of revenue is the transient room tax. On May 1, 2001, the Fiscal Court enacted an ordinance imposing a transient room tax. The Fiscal Court currently collects "3% of the rent for every occupancy of a suite, room or rooms charged." The Fiscal Court is to issue monthly checks to the Commission. This fiscal dependency requires the Fiscal Court to include the Commission as a component unit. Financial information for the Commission is immaterial to the primary government, so is not presented within Hart County's financial statements.

C. Hart County Elected Officials Not Part Of Hart County, Kentucky

Kentucky law provides for election of the below officials from the geographic area constituting Hart County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Hart County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The government-wide statements are reported using the economic resources measurement focus and the modified cash basis of accounting, as do the proprietary and fiduciary fund financial statements. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets. 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation. 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function 2) operating grants and contributions and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary funds) and whose total assets, liabilities, revenues, and expenditures/expenses are a least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as a major fund.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

All governmental fund statements are reported using the current financial resources measurement focus and the modified cash basis of accounting. The modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Governor's Office For Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office For Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, other counties for housing prisoners and transfers from the General Fund. The Governor's Office For Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

General Obligation Bond Fund - The purpose of this fund is to account for debt service requirements of general obligation bonds of the Fiscal Court. The Governor's Office For Local Development does not require the Fiscal Court to report or budget these funds.

The primary government also has the following nonmajor funds: Local Government Economic Assistance Fund, Federal Grants Fund, 911 Dispatch Fund, Tourist Fund, Financing Obligations Fund, and Hart County Public Properties Corporation.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Federal Grants Fund, 911 Dispatch Fund, and Tourist Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund:

The General Obligation Bond Fund, Financing Obligations Fund, and Hart County Public Properties Corporation are presented as debt service funds. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 30, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Proprietary Funds

All proprietary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the county's enterprise fund are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Fiduciary Funds

All fiduciary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund is used to account for monies held by the county in the Inmate Account Fund for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary fund:

Inmate Account Fund - This fund accounts for funds received from the inmates.

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Presentation of Component Units

The financial statements present the following major discretely presented component units: Hart County Industrial Authority, Inc. and Hart County Solid Waste Management District.

These component units are presented in separate columns in the combined financial statements. They are also reported on the Statement of Net Assets and the Statement of Activities in a separate total column that is labeled as "Component Units" to emphasize these organizations' separateness from the Fiscal Court's primary government.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificate of deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-25
	\$ 20,000	10-50

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities, however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

J. Related Organization and Jointly Governed Organization

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, Hart County Ambulance Service Taxing District is considered a related organization of Hart County Fiscal Court.

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Related Organization and Jointly Governed Organization (Continued)

A regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that created the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility. Based on these criteria, the Green River Valley Water District is considered a jointly governed organization of the Hart County Fiscal Court.

Note 2. Deposits and Investments

A. Deposits

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2004, the primary government and component units' deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the primary government or component units as beneficiary/obligee on the bond.

B. Investments

The county's investments are categorized below to give an indication of the level of risk assumed by the county at year-end. Category 1 includes investments that are insured or registered or the securities are held by the county or by the county's agent in the county's name. Category 2 includes uninsured and unregistered investments where the securities are held by the financial institution in the county's name. Category 3 includes uninsured and unregistered investments where the securities were held by the financial institution, but not in the county's name.

	Category			Carrying	Market
Investments	1	2	3	Amount	Value
Primary Government:					
Governmental					
Securities	\$	\$	\$ 95,577	\$ 95,577	\$ 95,577

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 50,399	\$	\$	\$ 50,399
Historical Treasures	224,669			224,669
Total Capital Assets Not Being Depreciated	275,068			275,068
Capital Assets, Being Depreciated:				
Buildings	4,981,565			4,981,565
Other Equipment	388,082			388,082
Vehicles and Equipment	695,407			695,407
Total Capital Assets Being Depreciated	6,065,054			6,065,054
Less Accumulated Depreciation For:				
Buildings	(633,368)	(92,308)		(725,676)
Other Equipment	(121,594)	(24,618)		(146,212)
Vehicles and Equipment	(467,391)	(34,131)		(501,522)
Total Accumulated Depreciation	(1,222,353)	(151,057)		(1,373,410)
Total Capital Assets, Being Depreciated, Net	4,842,701	(151,057)		4,691,644
Governmental Activities Capital Assets, Net	<u>\$ 5,117,769</u>	<u>\$ (151,057)</u>	<u>\$ 0</u>	<u>\$ 4,966,712</u>
<u>Business-Type Activities:</u>				
Capital Assets, Being Depreciated:				
Vehicles and Equipment	\$ 3,000	\$	\$	\$ 3,000
Total Capital Assets Being Depreciated	3,000			3,000
Less Accumulated Depreciation For:				
Vehicles and Equipment	(500)	(500)		(1,000)
Total Accumulated Depreciation	(500)	(500)		(1,000)
Total Capital Assets, Being Depreciated, Net	2,500	(500)		2,000
Business-Type Activities Capital Assets, Net	<u>\$ 2,500</u>	<u>\$ (500)</u>	<u>\$ 0</u>	<u>\$ 2,000</u>

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 34,717
Protection to Persons and Property	82,874
General Health and Sanitation	1,439
Recreation and Culture	4,751
Roads	<u>27,676</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 151,457</u>

Business-Type Activities

Jail Canteen	<u>\$ 500</u>
Total Depreciation Expense - Business Activities	<u>\$ 500</u>

Capital asset activity for discretely presented component units for the year ended June 30, 2004 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated:				
Land	\$ 513,915	\$	\$	\$ 513,915
Total Capital Assets Not Being Depreciated	<u>513,915</u>			<u>513,915</u>
Capital Assets, Being Depreciated:				
Buildings	1,152,453	4,466		1,156,919
Improvements	637,443			637,443
Office Equipment	14,290			14,290
Equipment and Trucks	<u>1,217,621</u>	<u>87,001</u>	<u>(3,000)</u>	<u>1,301,622</u>
Total Capital Assets Being Depreciated	<u>3,021,807</u>	<u>91,467</u>	<u>(3,000)</u>	<u>3,110,274</u>
Less Accumulated Depreciation For:				
Buildings	(134,633)	(27,504)		(162,137)
Improvements	(65,217)	(18,660)		(83,877)
Solid Waste Management - Buildings, Improvements, Office Equipment, and Equipment and Trucks	<u>(490,331)</u>	<u>(162,402)</u>	<u>2,700</u>	<u>(650,033)</u>
Total Accumulated Depreciation	<u>(690,181)</u>	<u>(208,566)</u>	<u>2,700</u>	<u>(896,047)</u>
Total Capital Assets, Being Depreciated, Net	<u>2,331,626</u>	<u>(117,099)</u>	<u>(300)</u>	<u>2,214,227</u>
Capital Assets, Net	<u>\$ 2,845,541</u>	<u>\$ (117,099)</u>	<u>\$ (300)</u>	<u>\$ 2,728,142</u>

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the discretely presented major component units as follows:

Hart County Industrial Authority, Inc.	\$ 46,164
Hart County Solid Waste Management District	<u>162,402</u>
Total Depreciation Expense - Component Units	<u>\$ 208,566</u>

Note 4. Long-term Debt

A. Mortgage Revenue Bonds, Series 1998

On March 1, 1998, Hart County Public Properties Corporation (Corporation), an agency and instrumentality of the Fiscal Court, issued first mortgage revenue bonds in the amount of \$3,865,000 for the purpose of constructing the detention center. During fiscal year 2004, Hart County Fiscal Court issued General Obligation Refunding Bonds, Series 2004 (Note 4.B.). A portion of this bond issue was used to pay the remaining principal of \$3,335,000 on the first mortgage revenue bonds, series 1998. As of June 30, 2004, the escrow account had a balance of \$3,472,705.

B. General Obligation Refunding Bonds, Series 2004

The Hart County Fiscal Court issued obligations of \$3,755,000, dated February 24, 2004 and payable in 25 annual principal installments beginning March 1, 2005 and semi-annual interest payments on the first of September and March at varying rates from 2.50% to 4.50%. The Fiscal Court issued the bonds for the purpose of refunding the Series 1998 Mortgage Revenue bonds of \$3,335,000 issued by Hart County Public Properties Corporation. As of June 30, 2004, bonds outstanding were \$3,755,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 35,000	\$ 161,938
2006	45,000	148,606
2007	50,000	147,481
2008	50,000	146,231
2009	85,000	144,981
2010-2014	635,000	675,331
2015-2019	765,000	554,406
2020-2024	990,000	378,244
2025-2029	<u>1,100,000</u>	<u>150,750</u>
Totals	<u>\$ 3,755,000</u>	<u>\$ 2,507,968</u>

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Long-term Debt (Continued)

C. Courthouse Renovations #1

On September 30, 2002, the Hart County Fiscal Court entered into an agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for the courthouse renovations. The principal was \$490,000 at an effective interest rate of 2.905 percent for a period of ten years, with principal and interest paid monthly. The principal outstanding as of June 30, 2004, is \$415,251. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2005	\$ 44,672	\$ 12,743
2006	46,130	11,297
2007	47,636	9,786
2008	49,191	8,237
2009	50,797	6,599
2010-2013	176,825	9,698
Totals	<u>\$ 415,251</u>	<u>\$ 58,360</u>

D. Courthouse Renovations #2

On December 28, 2000, the Hart County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) for the courthouse renovations. The principal was \$157,616 at an effective interest rate of 2.905 percent for a period of 10 years, with principal and interest paid monthly. The principal outstanding as of June 30, 2004, is \$141,575. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2005	\$ 14,204	\$ 4,095
2006	14,638	3,665
2007	15,085	3,214
2008	15,546	2,754
2009	16,021	2,268
2010-2013	66,081	4,007
Totals	<u>\$ 141,575</u>	<u>\$ 20,003</u>

E. County Attorney Computer and Server

On December 4, 2003, the Hart County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) for a computer and a server for the Hart County Attorney's Office. The principal was \$7,891 at a variable interest rate for a period of two years, with principal paid annually and interest paid monthly. The principal outstanding as of June 30, 2004, is \$5,317. Future principal and interest requirements are:

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Long-term Debt (Continued)

E. County Attorney Computer and Server (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2005	\$ 2,630	\$ 127
2006	2,687	48
Totals	<u>\$ 5,317</u>	<u>\$ 175</u>

F. Hart County Industrial Authority, Inc. Notes Payable

Notes payable at June 30, 2004 of Hart County Industrial Authority, Inc., a discretely presented component unit, consist of the following:

- 1) Note payable to Kentucky Economic Development Finance Authority, secured by letters of credit, dated May 21, 1999, maturing May 21, 2005. Principal payable in full at maturity or upon sale of a corresponding Project Site, whichever occurs first. Interest is payable quarterly at the annual rate of 2.00%. The principal outstanding as of June 30, 2004, is \$500,000.
- 2) Note payable to Kentucky Utilities, unsecured, dated May 12, 1998. The note is non-interest bearing and is payable March 7, 2006. The principal outstanding as of June 30, 2004, is \$80,000.
- 3) Note payable to Kentucky Banking Centers, Inc., dated April 19, 1999, renewable annually, secured by real estate. Principal payable in full upon sale of the corresponding Project Site or May 1, 2005. Interest is variable and is payable annually. The principal outstanding as of June 30, 2004, is \$513,591.
- 4) Note payable to Pioneer Bank, dated June 1, 1998, unsecured, renewable bi-annually. Interest is variable and is payable monthly. The Hart County Fiscal Court authorized Terry Shelton, County Judge/Executive, to co-sign this note. The principal outstanding as of June 30, 2004, is \$246,100.
- 5) Note payable to Pioneer Bank, dated June 1, 1999, secured by real estate, renewable annually. Interest is variable and is payable monthly. The Hart County Fiscal Court authorized Terry Shelton, County Judge/Executive, to co-sign this note. The principal outstanding as of June 30, 2004, is \$480,000.
- 6) Note payable to Pioneer Bank, dated May 11, 2000, and July 28, 2000, unsecured and due annually. Interest is variable and is payable monthly. The Hart County Fiscal Court authorized Terry Shelton, County Judge/Executive, to co-sign this note. The principal outstanding as of June 30, 2004, is \$35,000.
- 7) Note payable to Pioneer Bank, dated July 27, 2001, unsecured and due annually. Payable in monthly installments of \$4,314, including interest at 5.25%. The Hart County Fiscal Court authorized Terry Shelton, County Judge/Executive, to co-sign this note. The principal outstanding as of June 30, 2004, is \$183,764.

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Long-term Debt (Continued)

F. Hart County Industrial Authority, Inc. Notes Payable (Continued)

- 8) Future principal and interest requirements for note payable in aggregate of the Hart County Industrial Authority, Inc. are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 1,136,691	\$ 41,839
2006	901,764	38,673
Totals	<u>\$ 2,038,455</u>	<u>\$ 80,512</u>

G. Hart County Solid Waste Management District

Capitalized lease obligations and general obligation notes payable at June 30, 2004 of Hart County Solid Waste Management District, a discretely presented component unit, consist of the following:

- 1) Lease payable to Kentucky Area Development District (KADD) Small Issuer Lease Program, dated March 31, 1999; payable on June 1 and December 1 in semi-annual payments of varying amounts of approximately \$29,600 including interest at 4.67%; issued for the purpose of purchasing solid waste equipment. This agreement was entered into by Hart County Fiscal Court. The principal outstanding as of June 30, 2004, is \$102,800.
- 2) Lease payable to Kentucky Area Development District (KADD) Small Issuer Lease Program, dated May 31, 2001; payable in annual installments of \$15,000, due on June 1 and semi-annual installments of interest at 5% due on June 1 and December 1; issued for construction. Final payment due June 2008. The principal outstanding as of June 30, 2004, is \$60,000.
- 3) Lease payable to Kentucky Area Development District (KADD) Small Issuer Lease Program, dated April 18, 2002; payable on April 20 and October 20 in semi-annual payments of varying amounts of approximately \$15,000 including interest at 5.03%; issued for the purpose of purchasing solid waste equipment. The principal outstanding as of June 30, 2004, is \$115,000.
- 4) Lease purchase agreement payable to First Source Bank, secured by an 11-yard garbage truck recorded at \$48,000, dated February 28, 2002; payable in sixty equal installments of \$894 including interest. Final payment due in February 2007. The principal outstanding as of June 30, 2004, is \$27,716.
- 5) Lease payable to Dell Government Leasing and Finance Program, secured by a Dell Dimension 8250 Series Pentium 4 Processor Computer recorded at \$3,804, dated March 10, 2003, payable in 36 equal monthly installments of \$125 including interest. Final payment due March 2006. The principal outstanding as of June 30, 2004, is \$2,513.
- 6) Lease payable to First Source Bank, secured by a 2004 Freightliner Chassis with a Leach Alpha 20 yard Packer Body recorded at \$87,001, dated May 15, 2004; payable in sixty equal installments of \$1,575 including interest. Final payment due May 2009. The principal outstanding as of June 30, 2004, is \$85,658.

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Long-term Debt (Continued)

G. Hart County Solid Waste Management District (Continued)

- 7) \$750,000 Kentucky Infrastructure Authority Assistance Agreement, dated January 1, 2000; payable on June 1 and December 1 in semi-annual installments of \$57,676 including interest at 2.0%; issued for the purpose of financing equipment purchases; secured by the system revenues of the District. The principal outstanding as of June 30, 2004, is \$362,093.
- 8) \$144,000 Hart County Industrial Authority, Inc. dated February 1, 2001; payable in one hundred and twenty equal monthly installments of \$1,500 including interest at 9.5%, plus twenty five percent of the net collected funds from any future recycling activities undertaken by the District; final payment of all principal and accrued interest due in June 2011, in a balloon payment. Issued for the purchase of and secured by twenty acres of real property. The principal outstanding as of June 30, 2004, is \$127,116.
- 9) Future principal and interest requirements for capitalized lease obligations and general obligation notes in aggregate of the Hart County Solid Waste Management District are:

Capitalized Lease Obligations

Fiscal Year Ended June 30	Business-type Activities	
	Principal	Interest
2005	\$ 107,940	\$ 18,096
2006	106,190	13,057
2007	54,604	8,850
2008	48,029	6,616
2009	31,924	3,991
2010-2012	45,000	6,294
Totals	<u>\$ 393,687</u>	<u>\$ 56,904</u>

General Obligation Notes

Fiscal Year Ended June 30	Business-type Activities	
	Principal	Interest
2005	\$ 58,893	\$ 19,489
2006	60,566	17,709
2007	62,322	15,845
2008	64,167	13,890
2009	66,106	11,838
2010-2011	177,155	14,840
Totals	<u>\$ 489,209</u>	<u>\$ 93,611</u>

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Long-term Debt (Continued)

H. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$	\$ 3,755,000	\$	\$ 3,755,000	\$ 35,000
Revenue Bonds	3,335,000		3,335,000		
Financing Obligations	621,369	7,891	67,117	562,143	61,506
Governmental Activities Long-term Liabilities	<u>\$ 3,956,369</u>	<u>\$ 3,762,891</u>	<u>\$ 3,402,117</u>	<u>\$ 4,317,143</u>	<u>\$ 96,506</u>
Discretely Presented Component Units:					
Notes Payable and Capitalized Lease Obligations	<u>\$ 3,060,605</u>	<u>\$ 87,000</u>	<u>\$ 226,254</u>	<u>\$ 2,921,351</u>	<u>\$ 1,303,524</u>
Total Component Units	<u>\$ 3,060,605</u>	<u>\$ 87,000</u>	<u>\$ 226,254</u>	<u>\$ 2,921,351</u>	<u>\$ 1,303,524</u>

Note 5. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$19,007 in interest on financing obligations and \$155,905 in interest on bonds and notes.

Note 6. Commitments and Contingencies

A. Hart County Solid Waste Management District Financing Obligation

On March 31, 1999, the Hart County Fiscal Court entered into a lease agreement with Kentucky Area Development Districts (KADD) Financing Trust for the \$350,000 purchase of solid waste equipment. These payments are to be made by the Hart County Solid Waste Management District. See Note 4.G.1.

B. Hart County Industrial Authority, Inc. Loans

The Hart County Fiscal Court authorized Terry Shelton, County Judge Executive, to co-sign the following notes at banks for the Hart County Industrial Authority, Inc.:

- Note payable to Pioneer Bank for \$246,100 for the spec building. See Note 4.F.4.
- Note payable to Pioneer Bank for \$480,000. See Note 4.F.5.
- Note payable to Pioneer Bank for \$35,000. See Note 4.F.6.
- Note payable to Pioneer Bank for \$275,000 to retrofit the spec building. See 4.F.7.

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 7. Employee Retirement System

The Fiscal Court and the Hart County Solid Waste Management District, a discretely presented component unit, have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 8. Deferred Compensation

In February 2004, the Hart County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority, 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862.

Note 9. Insurance

For the fiscal year ended June 30, 2004, Hart County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Net Assets Deficit - Component Units

The deficit in net assets in discretely presented component units is due primarily to accumulated depreciation reducing capital assets.

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 11. Economic Dependency - Hart County Industrial Authority, Inc.

A material part of the Hart County Industrial Authority, Inc.'s, a discretely presented component unit, business is provided to two businesses renting one building. During the year ended June 30, 2004, the two (2) sources of revenue accounted for 97% of the Authority's total revenue. The effect of the loss of either or both of these revenues could materially affect the financial operations of the Authority.

Note 12. Subsequent Events

- A. The county applied for Community Development Block Grant funds in the amount of \$500,000 to be used for off-site infrastructure and expansion project.
- B. The county approved the Hart County Industrial Authority, Inc. annual participation notes in the amounts of \$183,765, \$480,000, \$246,100, and \$35,000.
- C. The county entered into an agreement with the Kentucky Transportation Cabinet to build an industrial access road to the Progress Industrial Park with the Cabinet to reimburse the county up to \$146,000 for the project.
- D. Negotiations are in progress for securing an occupant for the Horse Cave Spec Building. The Project would be the New Progress Industrial Park and would cost approximately \$2.3 million to be funded from grants being disbursed by Hart County and approximately \$1 million of new debt which is the responsibility of Hart County Industrial Authority, Inc. The debt would be paid for with a new industrial occupational tax collected by the county and disbursed to the Authority. There has not been a final contract as of the audit date.

Note 13. Changes in Accounting Principles and Prior Period Adjustments

The county has implemented Governmental Accounting Standards Board (GASB) Statements 33, 34 and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements. The effect of this change on the beginning net assets of the governmental and business type activities is an increase of \$1,161,400 and an increase of \$2,500 respectively, due to capital assets previously not reported.

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HART COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004

HART COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2004

GENERAL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,178,000	\$ 1,231,200	\$ 1,338,411	\$ 107,211
In Lieu Tax Payments	21,000	24,800	30,674	5,874
Excess Fees	35,555	35,555	47,843	12,288
Licenses and Permits	15,200	15,200	12,691	(2,509)
Intergovernmental Revenue	360,184	372,648	426,672	54,024
Charges for Services			150	150
Miscellaneous	8,225	161,225	201,901	40,676
Interest	5,000	5,000	9,683	4,683
Total Revenues	1,623,164	1,845,628	2,068,025	222,397
EXPENDITURES				
General Government	839,053	991,162	966,503	24,659
Protection to Persons and Property	22,314	39,238	36,185	3,053
General Health and Sanitation	140,553	148,481	148,551	(70)
Social Services	3,900	12,958	12,857	101
Recreation and Culture	50,865	60,355	59,770	585
Debt Service		59,882	59,882	
Capital Projects	30,000	1,728		1,728
Administration	243,901	288,391	271,988	16,403
Total Expenditures	1,330,586	1,602,195	1,555,736	46,459
Excess (Deficiency) of Revenues				
Over Expenditures Before Other	292,578	243,433	512,289	(268,856)
Financing Sources (Uses)				
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds			7,891	(7,891)
Transfers From Other Funds	193,754	193,754	216,856	(23,102)
Transfers To Other Funds	(538,168)	(538,168)	(688,921)	150,753
Total Other Financing Sources (Uses)	(344,414)	(344,414)	(464,174)	119,760
Net Changes in Fund Balances	(51,836)	(100,981)	48,115	(149,096)
Fund Balances - Beginning	64,300	164,300	223,773	(59,473)
Fund Balances - Ending	\$ 12,464	\$ 63,319	\$ 271,888	\$ (208,569)

HART COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

ROAD FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenue	\$ 978,169	\$ 978,169	\$ 1,003,725	\$ 25,556
Miscellaneous			1,530	1,530
Interest	7,828	7,828	12,158	4,330
Total Revenues	985,997	985,997	1,017,413	31,416
EXPENDITURES				
Roads	705,447	730,212	618,200	112,012
Administration	280,550	259,640	105,839	153,801
Total Expenditures	985,997	989,852	724,039	265,813
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)		(3,855)	293,374	(297,229)
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			223,373	(223,373)
Transfers To Other Funds	(193,754)	(193,754)	(417,127)	223,373
Total Other Financing Sources (Uses)	(193,754)	(193,754)	(193,754)	0
Net Changes in Fund Balances	(193,754)	(197,609)	99,620	(297,229)
Fund Balances - Beginning	193,754	193,754	720,036	(526,282)
Fund Balances - Ending	\$ 0	\$ (3,855)	\$ 819,656	\$ (823,511)

HART COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 840,938	\$ 940,938	\$ 941,973	\$ 1,035
Charges for Services	88,062	88,062	63,935	(24,127)
Miscellaneous	37,000	37,000	47,375	10,375
Interest	1,000	1,000	1,016	16
Total Revenues	967,000	1,067,000	1,054,299	(12,701)
EXPENDITURES				
Protection to Persons and Property	1,010,900	1,235,416	1,226,385	9,031
Debt Service	300,905	208,105	84,453	123,652
Administration	171,363	183,647	173,808	9,839
Total Expenditures	1,483,168	1,627,168	1,484,646	142,522
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(516,168)	(560,168)	(430,347)	(129,821)
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	506,168	506,168	591,918	(85,750)
Transfers To Other Funds			(122,000)	122,000
Total Other Financing Sources (Uses)	506,168	506,168	469,918	36,250
Net Changes in Fund Balances	(10,000)	(54,000)	39,571	(93,571)
Fund Balances - Beginning	64,300	10,000	58,153	(48,153)
Fund Balances - Ending	\$ 54,300	\$ (44,000)	\$ 97,724	\$ (141,724)

HART COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2004

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

HART COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -
MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2004

HART COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -
MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2004

	Local Government Economic Assistance Fund	Federal Grants Fund	911 Dispatch Fund	Tourist Fund	
ASSETS					
Cash and Cash Equivalents	\$ 55,532	\$ 9,335	\$ 12,947	\$ 14,290	
Investments					
Total assets	<u>\$ 55,532</u>	<u>\$ 9,335</u>	<u>\$ 12,947</u>	<u>\$ 14,290</u>	.
FUND BALANCES					
Unreserved:					
Special Revenue Fund	\$ 55,532	\$ 9,335	\$ 12,947	\$ 14,290	
Reserved for:					
Debt Service Fund					
Capital Projects Fund					
Total Fund Balances	<u>\$ 55,532</u>	<u>\$ 9,335</u>	<u>\$ 12,947</u>	<u>\$ 14,290</u>	.

HART COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -
MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004
(Continued)

Financing Obligations Fund	Hart County Public Properties Corporation	Total Non-Major Governmental Funds
\$	\$	\$ 92,104
89,202	6,375	95,577
<u>\$ 89,202</u>	<u>\$ 6,375</u>	<u>\$ 187,681</u>

\$	\$	\$ 92,104
89,202	523	89,725
	5,852	5,852
<u>\$ 89,202</u>	<u>\$ 6,375</u>	<u>\$ 187,681</u>

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HART COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2004

HART COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2004

	Local Government Economic Assistance Fund	Federal Grants Fund	911 Dispatch Fund	Tourist Fund
REVENUES				
Taxes	\$	\$	\$ 132,353	\$ 54,400
Intergovernmental	63,935	353,374		
Miscellaneous			2,249	
Interest	263		33	
Total Revenues	<u>64,198</u>	<u>353,374</u>	<u>134,635</u>	<u>54,400</u>
EXPENDITURES				
General Government	15,000	292,782	934	
Protection to Persons and Property		93,006	122,415	
General Health and Sanitation	9,719			
Recreation and Culture	39,961	34,008		61,596
Debt Service			7,692	
Capital Projects				
Administration			29,554	
Total Expenditures	<u>64,680</u>	<u>419,796</u>	<u>160,595</u>	<u>61,596</u>
Excess (deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(482)</u>	<u>(66,422)</u>	<u>(25,960)</u>	<u>(7,196)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds		92,884	15,000	
Transfers To Other Funds		(17,127)		
Total Other Financing Sources (Uses)		<u>75,757</u>	<u>15,000</u>	
Net Change in Fund Balances	(482)	9,335	(10,960)	(7,196)
Fund Balances - Beginning (Restated)	56,014		23,907	21,486
Fund Balances - Ending	<u>\$ 55,532</u>	<u>\$ 9,335</u>	<u>\$ 12,947</u>	<u>\$ 14,290</u>

HART COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004
(Continued)

Financing Obligations Fund	Hart County Public Properties Corporation	Total Non-Major Governmental Funds
\$	\$	\$
18,550		186,753
		435,859
		2,249
831	4	1,131
19,381	4	625,992
		308,716
		215,421
		9,719
		135,565
18,877	222,953	249,522
37,000		37,000
		29,554
55,877	222,953	985,497
(36,496)	(222,949)	(359,505)
	222,953	330,837
(16,856)		(33,983)
(16,856)	222,953	296,854
(53,352)	4	(62,651)
142,554	6,371	250,332
\$ 89,202	\$ 6,375	\$ 187,681

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

Honorable Glenn Thomas, Hart County Judge/Executive
Honorable Terry Shelton, Former Hart County Judge/Executive
Members of the Hart County Fiscal Court

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented components units, each major fund, and the aggregate remaining fund information of Hart County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated January 7, 2005. We did not audit the financial statements of the Hart County Solid Waste Management District and the Hart County Industrial Authority, Inc. Other auditors whose reports have been furnished to us audited those financial statements. Hart County, Kentucky prepares its financial statements in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hart County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hart County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of Hart County Fiscal Court, management, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
January 7, 2005

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

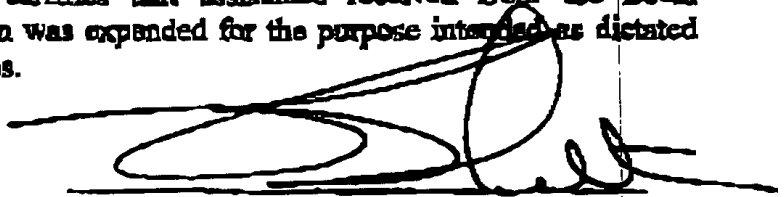
HART COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2004**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
HART COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2004

The Hart County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name
County Judge/Executive



Name
County Treasurer

